# PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP

**JULY 28 – AUGUST 03, 2001**

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**Summary**
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The peso closed unchanged week-on-week, but stock prices dipped further and domestic interest rates rose. The Central Bank announced it was scrapping a tiered interest payment scheme on overnight borrowings to stem liquidity and help ease pressure on the peso, while the umbrella organization of commercial banks agreed to voluntarily reduce banks' overbought foreign exchange limits. Meanwhile, latest statistics released during the week showed a 24.7% year-on-year dip in export revenues (June 2001 data), while manufacturing output sputtered to 2% growth in May. End summary.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

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## FOREX REPORT

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The peso slipped to close at P53.77/US$ mid-week -- down 0.6% from July 27's closing level -- before recovering to end the week at P53.45/US$ on August 3, unchanged week-on-week. Foreign exchange traders attributed the peso's late-week recovery to improved foreign exchange liquidity resulting from more moderate foreign exchange demand (after the usually heavier month-end corporate requirements) and an agreement reached by members of the Bankers Association of the Philippines (BAP) to voluntarily reduce commercial banks' foreign exchange overbought limits.

The BAP announced plans to reduce commercial banks' forex overbought limits to $5 million or 2.5% of net unimpaired capital (whichever is lower) effective August 6. This is half the ceiling prescribed by the Bangko Sentral ng Pilipinas (BSP, the central bank). BAP officials told the Embassy that they estimated the move to inject anywhere from $70 million to $100 million in additional foreign exchange supply in the spot market and added that the BSP would be monitoring compliance. BAP officials added that the measure is expected to improve the currently "uneven" foreign exchange supply distribution, which has created perception of foreign exchange scarcity and contributed to currency volatility. Although balance of payments flows are weak, the BAP believes that overall foreign exchange supply remains adequate to support the normal needs of the economy.

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Exchange Rate Tables

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| Date | Weighted Average (Pesos/US$) | Closing (Pesos/US$) | Volume (Million US$) |
|---|---|---|---|
| JUN 25 | 52.252 | 52.265 | 54.9 |
| 26 | 52.307 | 52.270 | 91.5 |
| 27 | 52.308 | 52.295 | 55.3 |
| 28 | 52.366 | 52.370 | 101.5 |
| 29 | 52.428 | 52.395 | 96.0 |
| JUL 02 | 52.612 | 52.700 | 93.0 |
| 03 | 52.905 | 52.940 | 113.5 |
| 04 | 53.025 | 52.930 | 145.5 |
| 05 | 52.965 | 52.980 | 111.1 |
| 06 | 52.901 | 52.890 | 73.5 |
| JUL 09 | 52.863 | 52.835 | 71.6 |

| | | | |
|---|---|---|---|
| 10 | 52.910 | 52.950 | 68.0 |
| 11 | 53.023 | 53.065 | 76.7 |
| 12 | 53.246 | 53.080 | 119.0 |
| 13 | 53.186 | 53.170 | 46.0 |
| JUL 16 | 53.503 | 53.710 | 50.4 |
| 17 | 53.896 | 53.950 | 49.5 |
| 18 | 53.928 | 53.700 | 168.5 |
| 19 | 53.316 | 53.200 | 122.3 |
| 20 | 53.210 | 53.150 | 154.8 |
| JUL 23 | 53.387 | 53.400 | 110.6 |
| 24 | 53.552 | 53.550 | 36.2 |
| 25 | 53.587 | 53.600 | 96.7 |
| 26 | 53.538 | 53.420 | 101.6 |
| 27 | 53.389 | 53.450 | 76.0 |
| JUL 30 | 53.562 | 53.370 | 106.7 |
| 31 | 53.526 | 53.540 | 67.7 |
| AUG 01 | 53.744 | 53.770 | 94.4 |
| 02 | 53.667 | 53.645 | 67.0 |
| 03 | 53.562 | 53.450 | 92.5 |

Source: Bankers Association of the Philippines

**CREDIT MARKET REPORT**

Bid rates at the government’s weekly Monday Treasury bill auction rose further on July 30. Demand was weak for the longer-term 182- and 364-day maturities, with less than 50% of tenders submitted for the P3 billion worth of bills scheduled for sale. The Treasury rejected all bid offers for the 182- and 364-day paper as “too high” (with some bids reportedly more than 80 basis points higher than in the previous week). The Treasury fully awarded the P1 billion worth of 91-day bills up for sale at an average rate of 9.215%, up 28 basis points week-on-week. A P4 billion auction of two-year Treasury bonds scheduled on July 31 was also under-subscribed and all bids rejected.

National Treasurer Sergio Edeza attributed the marked upward pressure on interest rates to the temporary liquidity tightness arising from a two-percentage point increase in reserve requirements which went into effect late last week. Treasury officials told the Embassy that the Treasury would reduce its weekly T-bill offering during the fourth quarter from P4 billion to P3.5 billion to ease pressure on domestic interest rates, taking in more foreign-denominated borrowings than originally planned. The national government has raised over $500 million in foreign-denominated debt over the past three months (including private placements and a currency swap arrangement) and also plans to raise anywhere from $500 million to $800 million worth of long-term bonds in international debt markets come September. Securities dealers expect the upward pressure on domestic interest rates to persist in the near-term, although at a more moderate pace than this week. Foreign exchange rate and fiscal developments will be key determining factors.

Domestic Interest Rates (in percent)

Treasury Bills

| Auction Date | 91 days | 182 days | 364 days |
|---|---|---|---|
| JUN 04 | 8.913 | 9.839 | 10.792 |
| JUN 11 | 8.729 | 9.700 | 10.823 |
| JUN 18 | 8.653 | 9.780 | 10.965 |
| JUN 25 | 8.728 | no sales | 11.092 |
| JUL 02 | 8.770 | 9.942 | 11.221 |
| JUL 09 | 8.849 | 10.172 | 11.419 |
| JUL 16 | 8.958 | 10.489 | 11.768 |
| JUL 23 | 8.935 | 10.861 | 11.988 |
| JUL 30 | 9.215 | no sales | no sales |

Source: Bureau of the Treasury

**STOCK MARKET REPORT**

The Philippine Stock Price Index (Phisix) closed the week at a new nine-month low, battered by news of discouraging export and manufacturing statistics and by higher returns on alternative fixed-rate investment instruments. The

Phisix closed at 1328.17 on August 3, down 2.6% from July 27's 1363.34 level.

Reflecting dwindling business volumes, two more foreign stock brokerages have decided to suspend their Philippine trading operations. They joined three foreign stock brokerage companies which suspended operations in 2000 and another five earlier this year (including the likes of Nomura Securities, Paribas Asia, Sung Hung Kai, Orion Squire Capital, and UOB Securities). Citicorp Securities International –- Citibank's local stock brokerage unit -- notified the Philippine Stock Exchange (PSE) that it is shelving operations at the end of August 2001. Meanwhile, Merrill Lynch's Philippine stock brokerage (Merrill Lynch Securities Philippines, Inc., MLPSI) has entered into a memorandum of agreement for a buyout by a team of Merrill Lynch Filipino managers. As a result of the management buyout, the brokerage unit will continue operating under a new name (i.e., Philippine Equity Partners Securities, Inc.).

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Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded
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| Date | PHISIX Close | Value (Million pesos) |
|---|---|---|
| JUN 25 | 1424.52 | 1,093 |
| 26 | 1423.44 | 521 |
| 27 | 1415.73 | 479 |
| 28 | 1414.79 | 436 |
| 29 | 1410.07 | 2,972 c/ |
| JUL 02 | 1395.79 | 543 |
| 03 | 1392.07 | 464 |
| 04 | 1385.99 | 525 |
| 05 | 1402.23 | 464 |
| 06 | 1396.92 | 278 |
| JUL 09 | 1405.39 | 346 |
| 10 | 1397.66 | 447 |
| 11 | 1390.10 | 284 |
| 12 | 1399.42 | 289 |
| 13 | 1396.30 | 208 |

| | | |
|---|---|---|
| JUL 16 | 1397.61 | 377 |
| 17 | 1384.01 | 798 |
| 18 | 1382.28 | 325 |
| 19 | 1381.87 | 625 |
| 20 | 1376.36 | 330 |
| JUL 23 | 1374.83 | 516 |
| 24 | 1369.02 | 441 |
| 25 | 1366.01 | 472 |
| 26 | 1362.58 | 368 |
| 27 | 1363.34 | 584 |
| JUL 30 | 1350.95 | 323 |
| 31 | 1362.89 | 406 |
| AUG 01 | 1333.71 | 373 |
| 02 | 1341.56 | 472 |
| 03 | 1328.17 | 338 |

a/ includes P6.57 billion block sale of Pure Foods to San Miguel Corporation
b/ about P2 billion accounted for by trading of blue-chip Philippine Long Distance Telephone Co. (PLDT) shares (reportedly on news of a debt restructuring plan forged with creditors by PLDT’s struggling subsidiary Piltel)
c/ includes P2.4 billion cross transaction in relation to Globe-Islacom merger

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Source: Philippine Stock Exchange

**MORE MOVES TO MOP UP LIQUIDITY, EASE PRESSURE ON PESO**

BSP Governor Rafael “Paeng” Buenaventura announced on August 2 (Thursday) that the Philippine Monetary Board (the BSP’s highest policy making body) had decided to scrap a three-tiered interest rate system for its overnight borrowings. The tiering scheme, adopted about two years ago in the hope of encouraging more active bank lending, pays 9% for the first P5 billion “parked” in BSP open market borrowings, a lower 7.5% for the next P5 billion, and 6% for placements over P10 billion. The move followed on measures announced the previous week to mop up financial liquidity and counter speculative currency pressures via higher “liquidity” reserve requirements (i.e., reserves which earn market-based yields) and a lower allowable ceiling for over-the-counter foreign exchange sales without documentation (halved from $10 million to $5 million). BSP officials noted that slow credit growth and the economy’s slowed expansion appeared to be driving peso liquidity into investments in foreign assets.

**MERCHANDISE EXPORTS CONTINUE TO SLUMP**
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Exports continue to perform poorly, hit hard by the economic slowdown in the United States and Japan and by the weak global demand for electronic products. According to the National Statistics Office (NSO), June 2001 export receipts dipped by 24.7% year-on-year to $2.6 billion -- following on year-on-year declines posted in February (3.4%), March (4.0%), April (15.8%), and May (11.4%). Receipts from shipments of electronic components (down 39.3% in US$ terms) also shrank year-on-year for a fourth month in a row. Cumulatively, January to June export revenues declined by 9.3% from 2000’s comparable first semester level, with receipts from electronics (54% of total export revenues) down 18.1%. Merchandise exports to the United States (the Philippines’ largest export market) accounted for 28% of total export receipts during the first half of the year but suffered a 12.8% decline from 2000’s comparable level.

The exceptionally steep year-on-year drop in June 2001 export revenues reflected in part a relatively high June 2000 base (during which exports rose over 19% year-on-year, its strongest performance during that year). Nevertheless, short-term export prospects remain weak and the latest numbers have contributed to increased skepticism over the economy’s ability to meet the government’s downward-revised targeted GDP growth range of 3.3% to 3.8% (adjusted from 3.8% to 4.2%) for the 2001 full year. The lower-end 3.3% GDP growth target assumes, among others, that full-year merchandise exports (in current US$ terms) will muster at least 1% growth year-on-year.

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PHILIPPINE MERCHANDISE EXPORTS
(In US$ Millions)

| | January – June 2000 | 2001 | Growth (%) |
|---|---|---|---|
| TOTAL EXPORTS | 17,616.1 | 15,978.1 | (9.3) |
| Agro-Based Products | 817.5 | 778.3 | (4.8) |
| Forest Products | 11.8 | 11.7 | (0.8) |
| Mineral Products | 348.5 | 263.4 | (24.4) |
| Petroleum Products | 169.2 | 117.4 | (30.6) |
| Manufactures | 15,793.9 | 14,264.9 | (9.7) |
| Electronics Equip. & Parts | 10,602.9 | 8,684.9 | (18.1) |
| Others (mainly re-exports) | 475.2 | 542.4 | 14.1 |

Source: National Statistics Office

**MAY 2001 MANUFACTURING UPDATE: VOLUME GROWTH SLOWS, CAPACITY UTILIZATION DOWN**

The NSO’s latest Monthly Integrated Survey of Selected Industries (MISSI) showed a modest 2% year-on-year expansion in aggregate manufacturing volume during May 2001, with only 5 of 16 manufacturing sub-sectors posting improved production volumes. That performance came on the heels of two consecutive months of double-digit growth and also reflected the slowest year-on-year expansion recorded in thirteen months. Sales volume contracted by 4.8% year-on-year.

Analysts considered the May 2001 survey results as a realistic picture of the current weak state of the Philippine economy. Reactions to the March and April year-on-year production growth rates had been generally muted -- attributed mainly to declining inventories and a relatively low 2000 base rather than to improved business prospects. Sales growth has lagged production growth over the past several months and has increased at a more moderate pace thus far than comparable year-ago growth rates, suggesting weaker overall demand.

The statistics also show more excess capacity this year than last. The manufacturing sector's average capacity utilization rate declined from 80.2% (May 2000) to 76.3% (May 2001). The capacity utilization rate for the January-May period averaged 77.3% versus 2000's comparable five-month average of 79.5%. Furthermore, a smaller (60%) share of establishments were operating at more than 70% capacity in May 2001 than in the previous year (67.3%), while the share of firms operating at less than half of capacity increased from 9.8% (May 2000) to 13.3% (May 2001).

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MONTHLY INTEGRATED SURVEY OF SELECTED INDUSTRIES

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| | Year-on-Year % Change | |
|---|---|---|
| | Production Volume r/ | Net Sales Volume |
| January 2000 | 12.3 | 10.1 |
| February | 7.7 | 10.5 |
| March | 2.7 | 10.5 |
| April | (1.4) | 8.3 |
| May | 13.7 | 21.0 |
| June | 14.5 | 8.0 |
| July | 20.4 | 5.7 |
| August | 10.1 | 13.2 |
| September | 16.8 | 2.9 |
| October | 19.0 | 3.7 |
| November | 40.7 | 15.8 |
| December | 14.0 | 7.7 |
| January 2001 | 4.1 r/ | 3.7 r/ |
| February | 8.2 r/ | 6.1 r/ |
| March | 11.3 r/ | 2.0 r/ |
| April | 13.3 r/ | 4.4 r/ |
| May | 2.0 | (4.8) |

r/ revised estimates starting April 2000

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Source: National Statistics Office

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